

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First Security Bank of Missoula, Missoula, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 9, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

The bank's satisfactory CRA rating is based on several factors. First, the bank has maintained a strong loan-to-deposit ratio since the previous evaluation. Second, it has a substantial majority of its loans in the assessment area. Third, its lending in different income census tracts is reasonable and, finally, its lending in geographies of different income levels in its assessment areas is reasonable.

The following table indicates the performance level of First Security Bank of Missoula, Missoula, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST SECURITY BANK MISSOULA, MONTANA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. The bank received an outstanding CRA rating at its previous evaluation. It has three offices, all located in Missoula. The bank made the Gateway office a full-service branch since the previous evaluation. The bank has not closed any offices since then, and it does not own an automated teller machine.

The bank has grown 45.3% since the previous evaluation. According to the September 30, 1996, Report of Condition ("ROC") data, the bank's total assets are \$121.8 million; according to the March 1995 ROC, the bank's total assets were \$86 million. Net loans were \$85.7 million as of September 30, 1996, as compared with \$62 million as of the end of first quarter 1995. Bank management attributes the growth to aggressive community activity, marketing, and credit ascertainment by the bank's lending officers. The bank's loan portfolio is 60.7% commercial, 26.3% consumer, 11.8% consumer real estate, and 1.2% other loans. The bank's loan portfolio mix has remained relatively stable since the previous evaluation.

The bank offers many commercial and consumer loan products. For example, the bank provides the following consumer real estate loan products: construction, mobile home, adjustable rate mortgage, Federal Housing Administration, Department of Veterans Affairs, and Montana Board of Housing. The bank also offers Small Business Administration ("SBA") loans. As of our evaluation, the SBA ranked the bank first in loans generated and third in dollars borrowed in Montana. The bank also provides closed- and open-end loans for a variety of consumer purposes.

DESCRIPTION OF FIRST SECURITY BANK OF MISSOULA'S ASSESSMENT AREA

The bank's assessment area follows the boundaries of Missoula County, Montana. The bank has three offices, all located in Missoula. According to the 1990 census data, the bank's assessment area has a total population of 78,687. Local members of the community familiar with Missoula's demographics and economic development climate who were contacted as part of the CRA evaluation provided 1996 economic data indicating that the population had increased to 87,130--approximately 11% growth since 1990. These contacts indicated that Missoula County has been experiencing a 9% population growth rate during the last two years. The population growth is the result of individuals relocating to the area, primarily from the West and Midwest.

The University of Montana is located in Missoula. Economic data provided by the contacts revealed that the university had a total student population of 11,886, or approximately 14% of the total assessment area population. The contacts consider the university to be a major industry in Missoula.

Community contacts also indicated that other major employers in Missoula are in the trade center sector. This sector consists of wholesale and retail merchants, medical services, and financial and insurance services. Wood and paper product suppliers and the government also contribute to the economy in a significant way.

Bank management and a local community government official familiar with housing in Missoula noted a lack of affordable housing in Missoula. They noted that because of the population growth, the demand for affordable housing has increased.

Missoula County has not been designated a metropolitan statistical area ("MSA"). However, the county is composed of 19 census tracts. Five of the census tracts are classified as low and moderate income. The remaining 14 are classified as middle and upper income.

CRA divides income into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in an MSA, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% of the statewide nonmetropolitan median family income is considered upper income. Census tracts are classified using similar categories based on the level of median family income in the geography.

The 1990 census data indicate that Montana's statewide nonmetropolitan median family income is \$27,352, while its median household income is \$22,345. The median family income for the assessment area is \$30,360, and the median household income is \$23,388. According to the 1996 Department of Housing and Urban Development data, the statewide nonmetropolitan median family income in Montana is \$34,700.

The census data indicate that 23.3% of the assessment area population is classified as low-income households, 15.7% is moderate income, 17% is middle income, and 44.1% is upper income. In addition, the census data indicate that 18.9% of the families are classified as low income, 15.5% are moderate income, 20.2% are middle income, and 45.4% are upper income. The number of households in the assessment area below the poverty level equal 17.7%.

As previously mentioned, the bank's assessment area includes five census tracts that are classified as low and moderate income. Census tract 5.00 is classified as low income. According to the bank, this census tract comprises much of the campus of the University of Montana. According to the 1990 census data, this tract has a total population of 1,495, or approximately 2% of the total assessment area population. Census tracts 2.01, 3.00, 7.00, and 10.00 are moderate-income tracts. Census tracts 2.01, 3.00, and 7.00 are located in the northern region of Missoula and are zoned primarily for commercial development. Tract 10.00 is located in the southwestern portion of Missoula.

The four moderate-income census tracts have a total population of 13,811, or approximately 18% of the total assessment area population. In addition, census tract 3.00 is located directly north of census tract 5.00 and consists of mostly rental housing.

The remaining 14 census tracts are classified as middle and upper income. According to 1990 census data, the middle-income census tracts have a total population of 35,681, which is approximately 45% of the total assessment area population. The upper-income census tracts have a total population of 27,700, or 35% of the total assessment area population.

Along with information obtained from interviews with bank management, examiners contacted a tribal official and community members familiar with economic development, housing issues, and demographic data in the assessment area. Information from these contacts was used to evaluate the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages was based on a statistical sample of 109 small business, 167 consumer, and 109 consumer real estate loans originated in the six months preceding the evaluation. The following criteria were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance based on the ratio's consistently strong level, the bank's community development loan activity, and the bank's status as the leading SBA lender in Montana. The bank's net loans and deposits have grown by 38% and 41.5%, respectively, since the previous evaluation. The bank attributes the growth to its aggressive lending practices and cross-selling deposit accounts.

The bank's quarterly average loan-to-deposit ratio since the previous evaluation is 76.8%. The following table, based on quarterly ROC data, shows the quarterly loan-to-deposit ratio since the previous evaluation.

Date	Net Loans (in thousands)	Deposits (in thousands)	Loan-to-Deposit Ratio
September 30, 1996	\$85,772	\$110,508	77.6%
June 30, 1996	\$77,125	\$100,074	77.0%
March 31, 1996	\$72,521	\$ 97,266	74.5%
December 31, 1995	\$72,223	\$ 93,861	76.9%
September 30, 1995	\$67,566	\$ 91,196	74.0%
June 30, 1995	\$65,002	\$ 85,128	76.3%
March 31, 1995	\$62,027	\$ 78,064	79.4%

According to the September 30, 1996, Uniform Bank Performance Report ("UBPR"), the bank's loan-to-deposit ratio for the quarter places it in the 74th percentile of its peer group banks. Economic data provided by community contacts indicate that there are five banks, three savings and loans, and three credit unions in Missoula. Three of the five banks are large regional banks. Two of these institutions maintain their headquarters in Minneapolis, Minnesota, while the other's main office is in Billings, Montana. Accordingly, examiners are not able to obtain financial information on branch offices of large regional financial institutions. The remaining competing bank in Missoula started operations approximately 24 months ago. It would be inconclusive to compare the loan-to-deposit ratio of the subject bank to the competing bank.

As discussed under Description of the Institution section, the bank offers a large variety of loan products that benefit the community. The loan-to-deposit ratios identified in the table on the preceding page do not include the large volume of commercial and real estate loans sold since the last evaluation. If included, the bank's loan-to-deposit ratio would increase by a few percentage points. In addition, the bank is an active SBA lender. According to the SBA, the bank is ranked first in Montana for SBA-guaranteed loans originated and third in total dollars borrowed. In fact, it ranks ahead of large regional banks that have branch offices in Missoula. In addition, Rocky Mountain Statistics Information Services of Salt Lake City, Utah ("RMS"), provided the bank with data that indicated as of September 1996, it was the most active real estate lender in the Missoula area.

The bank has also made the following community development loans since the last evaluation:

- The bank established a large line of credit for an affordable housing organization.
- In November 1996, the bank approved a large loan to construct a multi-unit apartment complex for low- and moderate-income senior citizens.
- In November 1995, the bank approved a large loan to construct a

multi-unit housing complex for low- and moderate-income people who have Alzheimer's disease.

Based on its continued strong loan-to-deposit ratio despite heavy growth in deposits since the previous evaluation, active participation in community development lending, the UBPR ranking, and status as the top SBA lender in Montana, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area exceeds the standards for satisfactory performance. In the six months before the evaluation, the bank made a substantial majority of its loans to residents and businesses in its assessment area. The table on the next page reflects the percentages of small business, consumer, and consumer real estate loans by total number and dollar amounts originated within the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Small Business	87	88
Consumer	87	92
Consumer Real Estate	83	83

The data for the percentages listed in the table are based on a statistical sampling of small business, consumer, and consumer real estate loans originated in the six months before the evaluation. As previously discussed, the bank's assessment area follows the Missoula County border. The vast majority of the loans originated are located in the bank's defined assessment area. The consumer real estate percentages are slightly below the other percentages as a result of sales of real estate loans on the secondary market.

In addition, the bank is attracting borrowers who reside outside the assessment area. Also as discussed previously, according to RMS, the bank is ranked first in the Missoula area for real estate mortgages originated and dollars borrowed. Based on the large percentage of loans within its assessment area for all loan types in the sample, the bank exceeds this category's standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, 1990 census data indicates that the bank's assessment area's total population is 78,687. Low-income households comprise 23% of the assessment area, moderate-income households comprise 16%, middle-income households comprise 17%, and upper-income households comprise 44%.

The data in the table on the next page, based on a statistical sampling of loans originated during the six months before the evaluation, reveal that the bank extends 32% of its consumer loans and 17% of its real estate loans to low- and moderate-income borrowers.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
Consumer				
Total Number of Loans	14%	18%	22%	46%
Total Amount of Loans	11%	17%	25%	47%
Consumer Real Estate				
Total Number of Loans	3%	14%	26%	57%
Total Amount of Loans	2%	11%	23%	64%
*Income level is determined based on Montana's 1996 nonmetropolitan median family income of \$34,700.				

The level of consumer lending to low- and moderate-income borrowers is reasonable when compared with the population of low- and moderate-income households in the assessment area. Specifically, 39% of the households are low and moderate income, and the table shows that 32% of the sampled consumer loans are made to borrowers of that income category. The slight discrepancy is attributed to the significant student population attending the University of Montana. Typically, students, who comprise 14% of the assessment area's population, have very limited demands for consumer loans.

As for consumer real estate lending, the low loan origination percentages in this category for low-income individuals is due to a couple of factors. First, local community contacts familiar with the Missoula real estate market indicated that housing prices in the Missoula area have been increasing. Unimproved lots cost a minimum of \$30,000 to \$35,000. Also, economic information as of October 1996 indicates that the average housing sale price is \$123,642. Less than 10% of the owner-occupied housing units in the assessment area have values below \$40,000 with another 31% between \$41,000 and \$60,000. Community contacts noted these higher prices have prevented nonprofit organizations and government agencies from purchasing real estate for affordable housing development. Also, higher housing costs prevent low- and moderate-income individuals from qualifying for mortgage loans because they do not have the personal incomes to qualify for the higher loan amounts. Borrowers who meet the definition of low and moderate income had incomes of less than \$24,300 in 1996.

Second, the bank follows secondary-market underwriting guidelines in approving credit requests. The underwriting guidelines provide the bank with conservative lending criteria it must follow to sell real estate loans. The drawback, however, is the guidelines are more difficult typically for low- and moderate-income applicants to meet.

The bank's lending percentages in the remaining income categories slightly exceed the demographic pattern of the assessment area. The percentage of consumer loans originated to upper- and middle-income households (68%) closely approximates the percentage of upper- and middle-income households in the assessment area (61%). The percentage of consumer real estate loans originated for upper- and middle-income households (83%) exceeds the percentage (61%) of upper- and middle-income households in the bank's assessment area. However, the previously mentioned economic information provided indicates that the demand for housing in this income category is strong.

The bank originates almost all of its commercial loans to small businesses. The six-month statistical sampling of commercial loans to small businesses indicates that 96% of the small business loans originated had gross revenues of \$1 million or less. In addition, 88% of the small business loans sampled had loan amounts less than \$100,000. As previously mentioned, the bank is the leading SBA lender in Montana. In addition, the bank actively sells participation interests in small business loans.

As noted above, there is limited demand for consumer loans from a large segment of the low- and moderate-income community; the cost of housing in the assessment area is very high relative to the incomes of low- and moderate-income borrowers; and the bank's lending is heavily concentrated in small business loans. Accordingly, the bank's record of lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans to geographies of different income levels is reasonable and meets the standards for satisfactory performance. As previously discussed, the bank's assessment area includes 19 census tracts. One census tract is classified as low income, four are classified as moderate income, and the remaining 14 census tracts are classified as middle and upper income. The following table indicates the bank's lending pattern within its assessment area, based on the income level of the census tracts.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	Low-Income Census Tract	Moderate-Income Census Tracts	Middle-Income Census Tracts	Upper-Income Census Tracts
Small Business				
Percentage of Total Loans	0	37	36	27
Percentage of Loan Amounts	0	45	33	22
Consumer				
Percentage of Total Loans	0	19	45	36
Percentage of Loan Amounts	0	18	42	40
Consumer Real Estate				
Percentage of Total Loans	N/A	19	45	36
Percentage of Loan Amounts	N/A	15	49	36

As previously mentioned, 2% of the assessment area's population resides in the low-income census tract. The table indicates that the bank did not originate any loans in the low-income census tract. This is explained by a couple of factors. The low-income census tract includes most of the University of Montana campus. The tract largely consists of student rental housing, dormitories, and university buildings. The bank noted that college students do not usually borrow funds. Also, there are no small businesses located in this tract. (The percentages for consumer real estate are not applicable, based on the 1990 census data indicating that there are no owner-occupied housing units in this tract.)

The moderate-income tracts have 18% of the assessment area's population. The bank's consumer and real estate lending in these tracts closely approximates the percentage of the population that resides in these tracts (18%). The bank's lending in the middle- and upper-income census tracts for these categories of lending also closely approximates the percentage of the population that resides in the those tracts (45% and 35%, respectively).

The bank's small business loan portfolio comprises the largest percentage of the entire loan portfolio, approximately 60%. The table shows that more small business loans are made in the moderate-income census tracts than in the higher income tracts. (As previously mentioned, there are no small businesses located in the low-income tract.) Concern over the lack of lending in the low-income census tract is mitigated by the relatively high percentage of small business lending in the moderate-income tracts and the solid lending percentages for consumer and consumer real estate loans. As previously mentioned, the bank is the leading SBA lender in Montana and community contacts indicated that the bank is a community leader for small business lending. Also, community contacts indicated that the bank is one of the most actively involved financial institutions in low- and moderate-income housing projects.

Overall, the distribution of the bank's loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance. This conclusion is based on the reasonable level of consumer and

residential real estate lending in the moderate-, middle- and upper-income tracts (which approximates the percentage of population in those tracts) and the relatively strong level of small business lending in the moderate-income tracts.

GENERAL

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. The evaluation revealed an isolated violation of the technical aspects of Regulation B's Equal Credit Opportunity Act. Management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the last evaluation.

PUBLIC DISCLOSURE

December 9, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Security Bank of Missoula
Name of Depository Institution

093007710000
Identification Number of Institution

Missoula, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.